AR29

MANOIR INDUSTRIES LTD.

ANNUAL REPORT 1970

The Manoir companies

General Freezer Limited

Kates International Corporation Ltd.

Manoir Industries (Bahamas) Limited

Manoir International
(DIVISION OF MANOIR INDUSTRIES LTD.)

Maso Import Ltd.

Mouton Processors Limited

SDP Communications
(DIVISION OF MANOIR INDUSTRIES LTD.)

Syndicated Film Services Limited

Atlas Customs Brokers Limited

Cinecraft, Inc.

Comprehensive Distributors Limited

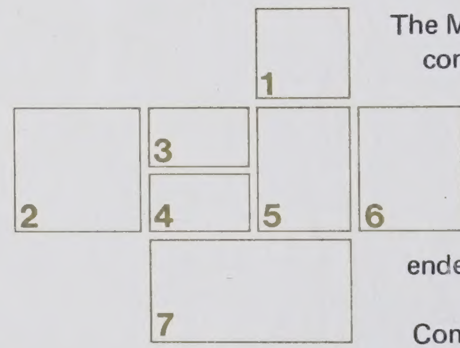
Eastern Sound Company Limited

Teleprint of Chicago, Inc.

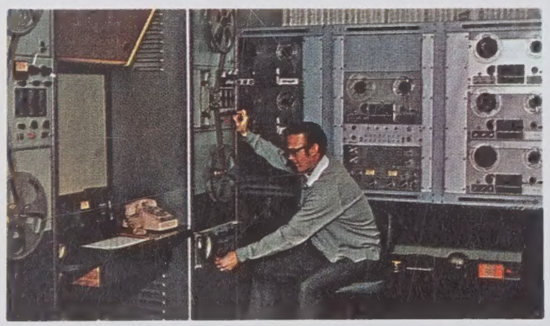
Teleprint of Los Angeles, Inc.

Teleprint of New York, Inc.

HEAD OFFICE: 2 GLENGROVE AVE. WEST, TORONTO 310, ONTARIO



The Manoir group consists of 14 Canadian-owned companies operating in Canada and the United States and embracing a wide range of activities. Manoir companies are active in manufacturing, distribution, imports and exports, communications, and service industries, and some of the group's endeavors are illustrated at right. 1. Automated screening and monitoring equipment helps Comprehensive Distributors apply strict quality control on color commercials. 2. Import-export documentation is provided at Toronto International Airport by Atlas Customs Brokers. 3. Fine dinner sets are imported from the Orient by Maso. 4. Tape duplication equipment at the Los Angeles office of Teleprint. 5. Production line at General Freezer turns out a complete line of home freezers. 6. Eastern Sound's new 24-track recorder, seen here during installation last fall, is the only one of its kind in operation outside of California. 7. Eastern's digital recording console has more than a million audio paths, and is unique in Canada.



The Manoir companies

MANOIR INDUSTRIES

Manoir Industries Ltd. is the holding company for all of the operations within the Manoir group. It provides management guidance and assistance in the running of individual companies.

MANOIR INTERNATIONAL

Manoir International is the exclusive agent in Canada for the products of Aspera Frigo S.P.A., of Turin. The range of products involved includes compressors for the refrigerating and air conditioning industries, and small gasoline engines and condensing units.

SYNDICATED FILM SERVICES

Syndicated Film Services Limited is the parent body of all the Manoir companies in the communications field, and of Atlas Customs Brokers Limited. It also operates in its own right as a film and videotape distribution service, and as a rental agency for film editing machines.

Syndicated is responsible for the complete Canadian syndication of television programs produced in the U.S. by the ABC-TV network.

GENERAL FREEZER

General Freezer Limited is Canada's largest independent manufacturer of home freezers. It produces a complete line of chest freezers, from compact apartment-size models to full 25 cubic-foot units designed for large families. Its share of the available market for its product is both substantial, and growing – it increased 11 per cent during 1970, and is rising again in 1971.

General's 90,000 square foot plant in Woodbridge, Ont., houses Canada's most modern freezer production line, much of it automated to control costs and guarantee quality. In addition, the company plans additional capital expenditure during 1971 to further improve quality and efficiency and thereby capitalize on increasing consumer awareness of product reliability.

Quality control, in fact, is stressed throughout the manufacturing operation. Every freezer is submitted to four complete inspections at various stages of production, two of them electronic tests to ensure complete vacuum sealing of the freezing system. All units are also test-run for three hours before being approved for delivery.

During 1970 there was a marked change in the nature of the freezer market. Traditionally, home freezers have appealed to rural consumers, but in 1970 urban sales rapidly became dominant. To capitalize on this change, the company embarked on major promotion campaigns with full color brochures, booklets and posters aimed at the urban consumer. The object throughout has been to educate the consumer in the value of home freezing, and results to date have been very rewarding. This approach will also be taken in 1971 to take further advantage of the continuing switch in the consumer market.

EASTERN SOUND

Eastern Sound Company Limited is North America's finest sound recording complex. It is a complete audio facilities centre that attracts business from all corners of the continent.

During 1970, the company completed a $350,000 expansion program that included adding a third studio and installation of some of the world's most sophisticated sound recording equipment. Eastern now has the only operational 24-track recorder outside California, and its new digital recording console with more than a million audio paths is unique in Canada.

The company handles a diverse range of sound recording business – from radio, to television, to motion pictures. It produces discs, tapes, and film sound tracks for major companies throughout Canada and the United States. During 1970 it recorded albums – including two new ones by Anne Murray – for such major record companies as Capitol, Columbia, and Ampex, and produced the sound for most major commercials aired on radio and TV.

SDP COMMUNICATIONS

SDP Communications is a new division of Manoir Industries. As the name implies, it is in the business of communications, catering to increasing demands from all sources for this important commodity.

The division's guidelines are broad to keep it flexible. It operates on a principle of minimum staff and low overhead, with no capital tied up in

non-productive equipment. Rather it retains specialists and specialized hardware on a limited time basis for assigned projects.

This approach gives SDP very broad scope in packaging ideas for its customers. Film, videotape, records, cassettes — or any new technological development — can and are used according to the needs of the communications task at hand.

The division is now completing a film on Regional Government for the Ontario Department of Municipal Affairs.

SDP is run on the theory that in the world today there is no greater common challenge than the need to communicate. The division is designed and managed by people with the experience to help meet this challenge.

COMPREHENSIVE DISTRIBUTORS

Comprehensive Distributors Ltd. is a print procurement house and distribution service for advertising agencies and companies that produce television commercials. It is also involved in production of commercials, and operates an import-export service for its customers.

During 1970, growing sales of color

continued

A horse and cart battling the rush hour bustle on Highway 401 north of Toronto typifies the fresh approach brought to communications by SDP Communications, Manoir's newest division. Scene is an actual frame from a 16 mm motion picture made by SDP for the Ontario Department of Municipal Affairs.

TV sets produced a greater demand for color commercials, and Comprehensive adapted and streamlined its operations to stay abreast of this development. Color requires very strict quality control, and to provide this for its customers, the company has installed Canada's first automated screening and monitoring equipment. This equipment will assist Comprehensive in maintaining its position as Canada's foremost print procurement house.

Comprehensive's import-export operations also increased during 1970 as its customers became more aware of the value of this service. Further efforts will be made to expand this business during 1971, thereby enhancing the company's image as a "total service" organization for television advertisers.

TELEPRINT COMPANIES

The Teleprint companies are the U.S. arm of Comprehensive Distributors with offices in New York, Chicago, and Los Angeles. The companies perform basically the same services as Comprehensive and have succeeded despite the stiff competitive nature of the U.S. television commercial market.

In 1970 the Los Angeles office finally succeeded in its long campaign for a uniform code of standards for the screening of television commercials. The campaign began in 1967 when Teleprint, together with a major film manufacturer and an international film society, set out to resolve problems in screening room procedures that resulted from multiple standards then in use.

ATLAS CUSTOMS

Atlas Customs Brokers Limited was set up in 1965 to operate as a customs brokerage and freight forwarding house. It is involved in customs formalities for the clearing of both imported and exported freight moving by truck, rail, and air, but has concentrated its efforts in the fast-growing air cargo field.

The company specializes in rapid clearance of film and other commodities for the broadcasting industry where time is a critical factor. It has also applied its expertise in this type of brokerage service to several other time-oriented fields.

The Atlas head office is located in the new air cargo terminal at Toronto International Airport, and it has a branch office at the Mid-Continent Truck Terminal in Toronto's west end. Its services are tailored to the individual needs of a growing number of prominent companies; it expedites the movement of their products through customs by precise preparation of the correct documents for clearance.

MOUTON PROCESSORS

Mouton Processors Limited is a Montreal company specializing in the supply of treated sheepskins. Skins bought on both domestic and international markets are resold for use in the manufacture of a wide variety of products including coats, hats, rugs, toys, and novelties.

MASO IMPORT

Maso Import Ltd. is an import and wholesale distribution operation that has been trading in houseware and giftware for more than 15 years.

Twice a year buyers are sent to the Orient to arrange importation of more than 600 different items ranging from porcelain dinner sets, to eggcups, to fondue pots, to escargot forks.

Maso has sales offices in Montreal, Toronto, Winnipeg, and Vancouver, and services all major chain and department stores as well as many jobber accounts. More than 150,000 cases of merchandise were distributed from the company's warehouses in 1970.

This year, Maso will open a new warehouse in Toronto in addition to its existing facilities in Montreal and Vancouver. This will provide greater market penetration in the consumer-rich Ontario region.

KATES INTERNATIONAL

Kates International Corp. Ltd. is exclusive agent for the China National Arts and Crafts Import and Export Corporation for the sale of porcelain and earthenware in Canada. The products are sold through importers, wholesalers, and distributors. In addition, the company promotes the sale of a variety of other Chinese products including tea, spices, and picture frames.

President's letter

Profitable and balanced growth continued to be Manoir's prime objective in 1970 and your management attained the stated goals of increasing revenues and earnings as shown in the highlights on the right. All operating subsidiaries were profitable.

In 1970, capital expenditures amounted to $575,000 which reflects management's philosophy of ploughing back a significant portion of current earnings with the objective of increasing future earnings. Of the total capital expenditures, $350,000 was expended in modernizing and expanding the sound recording facilities at Eastern Sound Company Limited which now boasts the most sophisticated and technologically advanced equipment available. The new facilities have been very enthusiastically received and we are proud to say that Anne Murray has recorded her two most recent albums at our studios. In addition, approximately $90,000 was spent in rationalizing and automating the production line at General Freezer Limited. This has already produced good results and, together with our capital projects envisioned in 1971, we look forward to continuing and increasing benefits.

Funds generated internally continued to show a strong growth rate. In 1970 the funds flow was $892,917, an increase of 12.5% over the $793,430 in the previous year.

Shareholders' equity in the Company increased by 26.8% from $2,305,965 to $2,922,940.

It is significant to note that the very encouraging results were achieved in spite of a generally depressed economy both in Canada and the United States.

In January 1971, the Directors announced a proposal to consolidate the common shares of the Company on the basis of four new common shares for ten old ones. This would give the common shares a par value of $1.00 with 1,638,040 common shares outstanding. On the basis of the proposed share structure, the earnings per share for 1970 would have been $0.45 compared with $0.38 on a like basis in 1969. It is also proposed to make an election under Section 105 of the Income Tax Act and declare a tax paid dividend aggregating $163,804 which is the equivalent of 4¢ a share on each of the 4,095,100 common shares now outstanding. In conjunction with these proposals, it is necessary for the Company to change its name. The Directors are recommending Canadian Manoir Industries Limited. All of these proposals are subject to the approval of the shareholders at a meeting to be held at the same time as the Annual Meeting. Further details of the proposals are contained in the information circular accompanying the Annual Report.

During the year the Company investigated a number of possible acquisitions. No acquisition resulted from the examinations as none of the possibilities met the Company's criteria of profitability and growth potential. Your management is actively engaged in seeking opportunities to further strengthen Manoir, not only from internal growth but also by acquisitions.

Recent decisions and proposals by the Canadian Radio and Television Commission have considerably enhanced the future growth prospects of several Manoir subsidiaries. It is generally believed that if cable television operators are to originate some of their own programming, they will have to carry advertising in order to pay for the additional costs. Such a move will materially benefit our Canadian television commercial film services. Also, the C.R.T.C. decision requiring radio stations to carry a percentage of Canadian music will be advantageous to our recording operation.

The Manoir Group is a diversified operation carrying on business all across Canada and also has three wholly-owned subsidiaries operating in major centres in the United States. This geographical diversification contributes to the stability, growth and increasing profitability of the Company.

The Company now has over 950 shareholders; 91.7% of the stock is held in Canada, the remaining 8.3% being held in the United States and a number of other countries.

For 1971, your management once again forecasts increased revenues and higher earnings.

Pat Clever

HIGHLIGHTS

	UP	FROM	TO
Gross Billings	13.4%	$13,522,110	$15,329,464
Net Income	15.5%	647,784	747,907
Working Capital	14.2%	1,687,757	1,927,798
Earnings Per Share	17.0%	0.153	0.179
Equity Per Share	38.8%	0.480	0.666

ARTHUR ANDERSEN & CO.
CHARTERED ACCOUNTANTS

P. O. BOX 29
TORONTO-DOMINION CENTRE
TORONTO 111

To the Shareholders of
Manoir Industries Ltd.:

We have examined the consolidated balance sheets of MANOIR INDUSTRIES LTD. (a Canada corporation) AND SUBSIDIARIES as of December 31, 1970, and December 31, 1969, and the related consolidated statements of income, retained earnings, contributed surplus and funds for the years then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Manoir Industries Ltd. and Subsidiaries as of December 31, 1970, and December 31, 1969, and the results of their operations and the source and application of their funds for the years then ended, in conformity with generally accepted accounting principles consistently applied during the years after giving retroactive effect to the change in the method of providing for withholding taxes on earnings of U.S. subsidiaries, as explained in Note 2 to the consolidated financial statements.

Arthur Andersen & Co.

March 15, 1971.

Consolidated Statements of Income

For the years ended December 31, 1970 and 1969

	1970	1969 (Note 2)
GROSS BILLINGS FOR SALES AND SERVICES	$15,329,464	$13,522,110
DEDUCT:		
Inter-group transactions	$ 978,969	$ 1,029,384
Duty, sales and excise taxes remitted on behalf of clients	2,386,290	2,342,142
	$ 3,365,259	$ 3,371,526
REVENUE FROM SALES AND SERVICES	$11,964,205	$10,150,584
COST OF SALES AND SERVICES	8,211,935	6,879,320
Gross income	$ 3,752,270	$ 3,271,264
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	2,207,719	2,046,041
Income before provision for income taxes (Note 9)	$ 1,544,551	$ 1,225,223
PROVISION FOR INCOME TAXES (Notes 2 and 5)	784,703	628,460
Income before extraordinary items	$ 759,848	$ 596,763
EXTRAORDINARY ITEMS (Note 8)	11,941	(51,021)
Net income for the year	$ 747,907	$ 647,784
EARNINGS PER SHARE (Note 7):		
Income before extraordinary items	$0.182	$0.140
Net income for the year	$0.179	$0.153
FULLY DILUTED EARNINGS PER SHARE (Note 7):		
Net income for the year	$0.175	$0.151

The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Retained Earnings

For the years ended December 31, 1970 and 1969

	1970	1969 (Note 2)
BALANCE, beginning of year, as previously reported	$277,424	$ (507,932)
DEDUCT — Withholding taxes on unrepatriated earnings of U.S. subsidiaries	(43,639)	(53,596)
BALANCE, beginning of year, as restated	$233,785	$ (561,528)
DEDUCT:		
Transfer to capital surplus (Note 6)	$144,000	$ 70,000
Dividends — Preferred shares (60¢ per share in 1970 and 75¢ per share in 1969)	15,228	30,622
Excess of cost over book value at dates of acquiring shares of subsidiaries (Note 1)	—	4,516,979
Expenses re capital reorganization (Note 7)	—	13,150
	$159,228	$4,630,751
ADD:		
Net income for the year	$747,907	$ 647,784
Reduction of capital under Section 49 of the Canada Corporations Act (Note 7)	—	4,778,280
	$747,907	$5,426,064
BALANCE, end of year	$822,464	$ 233,785

The accompanying notes to consolidated financial statements are an integral part of these statements.

Consolidated Statements of Contributed Surplus

For the years ended December 31, 1970 and 1969

	1970	1969
BALANCE, beginning of year	$25,840	$ 11,840
ADD:		
Excess of par value of preferred shares purchased over cost of purchases (Note 6)	28,296	14,000
Excess issuance price over par value of common shares (Note 1)	—	804,231
	$54,136	$830,071
DEDUCT — Write-off of portion of excess cost over book value at dates of acquiring shares of subsidiaries (Note 1)	—	804,231
BALANCE, end of year	$54,136	$ 25,840

The accompanying notes to consolidated financial statements are an integral part of these statements.

MANOIR INDUSTRIES LTD. and subsidiaries

Consolidated Balance Sheets

December 31, 1970 and 1969

Assets

	1970	1969 (Note 2)
CURRENT ASSETS:		
Cash and deposit receipts	$1,010,071	$ 636,033
Accounts receivable (Note 3)	1,757,989	1,512,361
Income taxes recoverable	—	24,054
Inventories, at the lower of cost or market (Note 3)	1,349,200	1,092,689
Prepaid expenses	83,189	123,334
Total current assets	$4,200,449	$3,388,471
INVESTMENT, 54,600 (1969 – 59,000) common shares of Isec Canada Ltd., at cost (quoted value as of March 15, 1971 – $38,220)	$ 27,300	$ 29,500
LAND, BUILDINGS, EQUIPMENT AND LEASEHOLD IMPROVEMENTS, at cost, pledged (Note 4):		
Land	$ 26,593	$ 6,573
Buildings	567,701	475,424
Equipment	1,171,071	860,417
Leasehold improvements	308,792	158,421
	$2,074,157	$1,500,835
Less – Accumulated depreciation and amortization	674,103	530,771
	$1,400,054	$ 970,064
	$5,627,803	$4,388,035

Approved on behalf of the Board:
(Signed) D. L. Sinclair, Director
(Signed) G. D. Scroggie, Director

Liabilities

	1970	1969 (Note 2)
CURRENT LIABILITIES:		
Bank advances (Note 3)	$ 370,784	$ 340,059
Accounts payable and accrued liabilities	1,501,961	959,195
Income taxes (Note 2)	345,203	354,874
Estimated liability for warranties	27,703	19,586
Current portion of long-term debt (Note 4)	27,000	27,000
Total current liabilities	$2,272,651	$1,700,714
LONG-TERM DEBT, less current portion included above (Note 4)	$ 337,250	$ 364,250
DEFERRED INCOME TAXES (Note 5)	$ 94,962	$ 17,106

Shareholders' Equity

	1970	1969 (Note 2)
Capital stock —		
6% Cumulative preferred shares, par value $10, redeemable at $10.50; authorized and issued, less redeemed, 19,430 shares in 1970 and 33,830 shares in 1969 (Note 6)	$ 194,300	$ 338,300
Common shares, par value 40¢; authorized, 7,500,000 shares; issued 4,095,100 shares (Notes 1, 7 and 9)	1,638,040	1,638,040
	$1,832,340	$1,976,340
Capital surplus, arising from redemption of preferred shares (Note 6)	214,000	70,000
Contributed surplus, per accompanying statements	54,136	25,840
Retained earnings, per accompanying statements	822,464	233,785
	$2,922,940	$2,305,965
	$5,627,803	$4,388,035
Equity per share of issued common shares	$0.666	$0.480

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

Consolidated Statements of Funds

For the years ended December 31, 1970 and 1969

	1970	1969 (Note 2)
WORKING CAPITAL, beginning of year	$1,731,396	$ 619,701
Withholding taxes on unrepatriated earnings of U.S. subsidiaries (Note 2)	(43,639)	(53,596)
Acquired from Syndicated Film Services Limited in exchange for common shares (Note 1)	—	538,761
WORKING CAPITAL, beginning of year, as restated	$1,687,757	$1,104,866
SOURCE OF FUNDS:		
Operations —		
Net income for the year	$ 747,907	$ 647,784
Depreciation and amortization	145,010	145,646
Loss on realization of certain assets of Mouton Processors Limited (Note 8)	—	37,779
	$ 892,917	$ 831,209
Increase in deferred income taxes (Note 5)	77,856	17,106
Issue of common shares (Note 7)	—	75,000
Issue of common shares by Syndicated Film Services Limited prior to being acquired	—	66,300
Proceeds from sale of Manoir shares by Syndicated Film Services Limited prior to being acquired	—	435,450
Proceeds from sale of land, buildings, equipment and leasehold improvements	—	161,772
Other	2,200	26,235
	$ 972,973	$1,613,072
APPLICATION OF FUNDS:		
Additions to land, buildings, equipment and leasehold improvements	$ 575,000	$ 293,886
Decrease in long-term debt	27,000	481,187
Dividends	15,228	30,622
Purchases of preferred shares (Note 6)	115,704	56,000
Loss on realization of certain assets of Mouton Processors Limited involving funds	—	46,028
Excess cost of acquiring subsidiaries	—	109,308
Other	—	13,150
	$ 732,932	$1,030,181
Increase in working capital	$ 240,041	$ 582,891
WORKING CAPITAL, end of year	$1,927,798	$1,687,757

The accompanying notes to consolidated financial statements are an integral part of these statements.

NOTES

TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 1970 AND 1969

1. PRINCIPLES OF CONSOLIDATION

(a) Consolidated Financial Statements

The Company's financial statements as of December 31, 1970 and 1969 are consolidated with those of its subsidiaries:

- General Freezer Limited
- Kates International Corporation Ltd.
- Manoir Industries (Bahamas) Limited
- Maso Import Ltd.
- Mouton Processors Limited
- Syndicated Film Services Limited —
  - Atlas Customs Brokers Limited
  - Cinecraft, Inc.
  - Comprehensive Distributors Limited
  - Eastern Sound Company Limited
  - Teleprint of Chicago, Inc.
  - Teleprint of Los Angeles, Inc.
  - Teleprint of New York, Inc.

b) Acquisition of Syndicated Film Services Limited and Subsidiaries

On January 10, 1969, the directors of the Company announced that they had agreed with the shareholders of Syndicated Film Services Limited to acquire from them all of the 313,810 issued shares of Syndicated Film Services Limited, by exchanging for each share ten common shares of the Company. The directors deemed the fair value of the shares of the Company issued in exchange to be as follows:

DATE ISSUED	COMMON SHARES ISSUED		CREDITED TO CAPITAL STOCK	CREDITED TO CONTRIB. SURPLUS
March, 1969	2,688,100	no par value	$5,376,200	$ —
August, 1969	450,000	40¢ par value	180,000	720,000
	3,138,100		$5,556,200	$720,000

This acquisition has been reflected in these financial statements as being effective as of January 1, 1969. The excess cost over the underlying book value at the effective date of acquisition has been charged to Retained Earnings and Contributed Surplus.

c) Acquisition of Remaining Interest in Cinecraft, Inc.

In February, 1969, the Company acquired the remaining 50%-interest in Cinecraft, Inc., a previously 50%-owned company. This acquisition has been reflected in these financial statements as being effective as of January 1, 1969. The excess cost over the underlying book value at the effective date of acquisition has been charged to Retained Earnings.

d) Acquisition of Eastern Sound Company Limited

In May, 1969, the Company acquired the outstanding shares of Eastern Sound Company Limited for $197,769 in cash and 32,000 common shares of the Company. The directors of the Company deemed the fair value of these shares to be $97,031 and, accordingly, $12,800 has been credited to Capital Stock and $84,231 to Contributed Surplus. This acquisition has been reflected in these financial statements as being effective as of April 1, 1969. The excess cost over the underlying book value at the effective date of acquisition has been charged to Retained Earnings and Contributed Surplus.

e) Conversion Rates for U.S. Subsidiaries

Conversion of the accounts of U.S. subsidiaries both during the year and at December 31, 1970 was made at U.S. $1.00 = Cdn. $1.02 (1969 U.S. $1.00 = Cdn. $1.08). As indicated in Note 8, the Company has recognized, as an extraordinary item, a loss of $11,941 resulting from the reduction in 1970 of the rate of exchange of U.S. dollars to Canadian dollars.

2. RETROACTIVE ADJUSTMENTS

The consolidated financial statements reflect a change in accounting principle with respect to the provision for U.S. withholding taxes accruing on earnings of subsidiaries in the United States. Previously, provision for U.S. withholding taxes had been made only as such taxes were paid and earnings were repatriated. In 1970, the Company has accrued such withholding taxes as income available for repatriation was earned. The comparative figures for 1969 have been restated to reflect this change.

Certain other minor adjustments have been made to the 1969 figures to present earnings per share and deferred income taxes in accordance with recommendations of the Canadian Institute of Chartered Accountants.

3. BANK ADVANCES

The Company has a line of credit of $1,450,000, secured by approximately $1,800,000 (1969 — $1,500,000) of accounts receivable and inventories.

4. LONG-TERM DEBT

	1970	1969
Owing to a shareholder —		
Serial debentures bearing interest at ½% in excess of prime bank rate	$ 24,000	$ 36,000
Convertible debenture — $300,000 bearing interest at 8½% and $24,000 bearing interest at 7½%	324,000	324,000
First mortgage, bearing interest at 6%	16,250	31,250
	$364,250	$391,250
Less — Current portion payable within one year	27,000	27,000
	$337,250	$364,250

The Convertible Debenture is repayable on or before December 31, 1973, and is secured by a floating charge on all property and assets of the Company. The Debenture is convertible, as to $312,500 into 125,000 common shares of the Company at $2.50 per share.

5. DEFERRED INCOME TAXES

The provision for income taxes includes $77,856 in 1970 ($17,106 in 1969) of taxes which are not currently payable due to the Company claiming for income tax purposes capital cost allowances in excess of depreciation recorded in the accounts. The accumulated amount by which income taxes have been so deferred in 1970 and prior years is reflected on the Balance Sheet as Deferred Income Taxes.

6. PREFERRED SHARES

In 1970 14,400 preferred shares and in 1969 7,000 preferred shares were purchased for cancellation in the open market for $115,704 and $56,000 respectively in accordance with Supplementary Letters Patent dated February 17, 1964, which require that a percentage of consolidated net income be used for such purchases.

The excess of the par value of the shares purchased over cost, amounting to $28,296 in 1970 and $14,000 in 1969, has been credited to Contributed Surplus.

In accordance with the requirements of Section 61 (4) of the Canada Corporations Act, amounts of $144,000 in 1970 and $70,000 in 1969 representing the aggregate par value of the shares purchased were transferred from Retained Earnings to Capital Surplus.

7. COMMON SHARES

(a) By Supplementary Letters Patent dated March 7, 1969, authorized common shares were increased to 7,500,000.

(b) By Supplementary Letters Patent dated May 13, 1969:

(i) The paid-up capital of the Company was reduced by $4,778,280, the amount by which such paid-up capital was unrepresented by available tangible assets.

(ii) The 7,500,000 authorized common shares of no par value were changed into 7,500,000 common shares of 40¢ par value each.

(c) During the year ended December 31, 1969:

(i) 25,000 Common shares were issued for $75,000 cash to W. C. Pitfield & Company, Limited, pursuant to an option agreement dated February 28, 1964.

(ii) 2,688,100 Common shares were issued for $5,376,200 in exchange for 268,810 shares of Syndicated Film Services Limited, as indicated in Note 1 to these financial statements.

(iii) 450,000 Common shares were issued for $180,000 in exchange for 45,000 shares of Syndicated Film Services Limited, as indicated in Note 1 to these financial statements.

(iv) 32,000 Common shares were issued for $12,800 as partial payment for the outstanding shares of Eastern Sound Company Limited, as indicated in Note 1 to these financial statements.

(d) On April 24, 1970, the shareholders approved a Stock Option Plan pursuant to which 125,000 common shares of the Company are reserved for issuance upon the exercise of stock options granted to key officers and employees of the Company and its subsidiaries. Under the plan, the Directors have granted options to purchase 88,500 common shares at a price of $1.35 per share. The options are for a term of five years from the date of issue and are to be exercisable on a cumulative basis. No options were exercised during 1970.

(e) The earnings per share computations are based on the weighted average of common shares outstanding at the end of each month during the year, after giving recognition to the dividend requirements on the preferred shares.

Fully diluted earnings per share reflects the effect on earnings per share which would result if:

(i) The Convertible Debenture outstanding at December 31, 1970, and 1969 had been converted into common shares at the beginning of each year, and

(ii) The stock options on the 88,500 common shares had been exercised at the date they were granted in 1970 and the funds derived therefrom had been invested to produce an annual return of 7½% before provision for income taxes.

8. EXTRAORDINARY ITEMS

The extraordinary items included in the statements of income are:

	1970	1969
Loss on conversion of accounts of U.S. subsidiaries as discussed in Note 1	$11,941	$ —
Reduction in income tax provision due to loss carry-forward from prior years	—	(88,800)
Loss on realization of certain assets of Mouton Processors Limited	—	37,779
	$11,941	$(51,021)

9. STATUTORY INFORMATION

The following items have been deducted in calculating income before provision for income taxes:

	1970	1969
Depreciation and amortization	$145,010	$145,646
Interest — long-term debt	$31,328	$59,464
— other	$28,059	$12,747
Remuneration of directors and officers	$52,800	$35,689

10. SUBSEQUENT EVENTS

On January 15, 1971, the Directors of the Company enacted two By-laws which, subject to the approval of the shareholders and confirmation by Supplementary Letters Patent, provide for the following:

(a) Consolidation of the existing common shares of the par value of 40¢ each into common shares of the par value of $1.00 each on the basis of the issue of four new shares in exchange for ten old shares and changing the name of the Company to Canadian Manoir Industries Limited;

(b) Creation of 4,700,000 1% non-cumulative, redeemable, non-voting preferred shares of the par value of 10¢ each.

On receipt of the Supplementary Letters Patent for the creation of 4,700,000 1% non-cumulative, redeemable, non-voting preferred shares, the Directors of the Company have announced their intention to create tax-paid undistributed income under Section 105 of The Income Tax Act, to declare a stock dividend of one new preferred share on each new common share, and forthwith redeem the preferred shares at par.

Manoir Industries Ltd.

OFFICERS
Pat Clever President
G. D. Scroggie Secretary
G. Grahamslaw Treasurer

DIRECTORS
T. H. Baker Toronto
Pat Clever Toronto
M. P. Pick Toronto
G. D. Scroggie Toronto
D. L. Sinclair Toronto

BANKERS
Toronto Dominion Bank Toronto
Royal Bank of Canada Toronto
Chase Manhattan Bank New York

REGISTRARS
Canada Permanent Trust Company Toronto

TRANSFER AGENTS
Canada Permanent Trust Company Toronto

AUDITORS
Arthur Andersen & Co. Toronto

LAWYERS
Fraser & Beatty Toronto
Byers, McDougall, Casgrain & Stewart Montreal
Guggenheimer & Untermyer New York

SHARE LISTING
The common shares of the Company are listed on the Toronto Stock Exchange.